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C O N F I D E N T I A L SECTION 01 OF 03 BEIJING 000105

SIPDIS

NSC FOR MEDEIROS AND LOI

E.O. 12958: DECL: 01/13/2020

TAGS: [ECON](#) [EINV](#) [PGOV](#) [PREL](#) [CH](#)

SUBJECT: GOOGLE DAY 2: BALL STILL IN GOOGLE'S COURT

REF: A. BEIJING 104

[1](#)B. BEIJING 86

Classified By: Economic Minister Counselor Weinstein for reasons: 1.4(B), (D)

[1](#)1. (C) Summary. Google's Beijing headquarters continued business "as usual" today as it still provided the China-based version of its search engine. Google emphasized its filtering of that search engine remained "unchanged" and "compliant with Chinese law." Google has not yet engaged the Chinese government in discussions about continuing its operations here. The Chinese Government provided the first official reaction to Google's January 14 announcement, with the MFA spokesperson and other PRC officials rejecting allegations of Chinese responsibility for the recent, alleged cyber attacks on Google and other companies' internet architecture. Local industry experts and American businesspersons here almost unanimously expect Google will withdraw from the market, despite its claims to still be open to resolving its problems with China. Local media coverage included numerous business articles on Google's travails, with at least one Chinese website claiming to have conducted an opinion poll showing a large majority support China not making concessions to Google. End Summary.

[1](#)2. (C) Google China's Beijing HQ remained relatively quiet January 14, with Google employees continuing to work. Spectators, press, and well-wishers continued to visit, according to XXXXXXXXXXXX. XXXXXXXXXXXX explained Google has still not engaged with PRC authorities to reach a solution to the current impasse, but noted China's State Council Information Office (SCIO) did contact Google China's government relations staff January 13 following a several-hour suspension of Google.cn's search filtering mechanisms, which XXXXXXXXXXXX explained were due to technical issues. XXXXXXXXXXXX explained that SCIO asked Google's government relations team if this was a deliberate modification of its filtering. XXXXXXXXXXXX said Google had not disabled its filters, and SCIO accepted Google's explanation. At present, according to a U.S.-based Google representative, Google "continues to comply with the law in China and is filtering Google.cn as (it) has been." The U.S.-based rep did concede that Google's filter is undergoing changes, but publicly Google is not "explaining the changing nature of (its) filter" and maintains the filtering remains in compliance with Chinese law.

GOVERNMENT REACTION COOL

[1](#)3. (C) XXXXXXXXXXXX reports that the PRC still has not directly addressed the firm's announcement with Google.

However, MFA spokesperson Jiang Yu addressed the Google matter in a regular January 14 MFA press briefing (reported Ref A), during which reporters barraged her with questions on Google. Jiang stated the Chinese government has made its position clear to the U.S. and asserted Chinese law prohibited cyber attacks, including hacking. Jiang also said China's internet is "open and the Chinese government encourages its development." State Council Information Office (SCIO) Minister Wang posted a web statement January 13, which, while not directly addressing Google, stressed that the internet should be used to shape public opinion and should comply with state control. Yao Jian, Spokesperson for the Ministry of Commerce (MOFCOM) on January 13 said only that MOFCOM would follow the Google matter closely. A MOFCOM specialist on multinational investment policies was quoted in the press as arguing that the Google case is unique and should not be seen as relevant to other multinational investments in China. Officials at the Ministry of Industry and Information Technology (MIIT) declined to comment on the case, claiming that they do not have enough information.

SPECULATION ON NEXT STEPS

14. (C) XXXXXXXXXXXX spoke January 13 with XXXXXXXXXXXX, who opined that the Chinese government was likely surprised by Google's announcement of its potential withdrawal, and the PRC would be unlikely to seek out talks with Google. XXXXXXXXXXXX anticipates we will see a slow, perfunctory attempt to engage between U.S.-based Google representatives and the Chinese, but that, in XXXXXXXXXXXX opinion the PRC has already likely decided

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that Google is a company that "does not understand how to work with China." Only if Google continues to accept China's mandates would an accommodation be possible, according to XXXXXXXXXXXX. XXXXXXXXXXXX also predicted that, failing an agreement, the Gmail accounts of Chinese users would suffer sporadic interruptions of access, and the potential for a complete blockage of Google.com is also not out of the question.

15. (C) A highly-regarded long-term local industry analyst XXXXXXXXXXXX, also saw Google's actions as leading quickly to its withdrawal from the Chinese market. XXXXXXXXXXXX speculated to Econoff that Google may have an extremely limited window to seek a solution, given the increasing "maniacal" posture of elements of the Chinese bureaucracy with respect to information control and discriminatory policies and practices toward foreign elements. XXXXXXXXXXXX also opined that Google's withdrawal from the market would undermine competition here and therefore innovation in China's internet industry. He saw Baidu's success as a direct result of competition with Google and other western companies; without that competition, Baidu and other Chinese companies would likely lose their competitive edge in the long run. Separately, XXXXXXXXXXXX was quoted in the media as saying "there has been this received wisdom that no one can afford not to be in China, but that is being questioned now."

BUSINESS COMMUNITY REACTIONS

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17. (SBU) XXXXXXXXXXXX told XXXXXXXXXXXX January 14 that logistics had made it impossible for its Board to clear and release a press statement January 13 XXXXXXXXXXXX The Committee has drafted a statement on the security and free flow of information that it now hopes to clear and release within twenty-four hours. XXXXXXXXXXXX noted that in seeking to remove all filters from its China-based search engine, Google has firmly positioned itself publicly and will not be able to back down. XXXXXXXXXXXX believes Google's China exit is imminent, and would only at the

margins affect information flows, IT services, and the development of competition in China. He did hope that this matter would force the PRC to use greater caution before implementing policies harmful to the business climate.

18. XXXXXXXXXXXX thought Google, however, had backed itself into a corner from which it could not likely exit, given the Chinese reputation for non-compromise in such matters.

19. (SBU) Jack Ma, Chairman of Chinese internet giant Alibaba (with ownership links to Yahoo China, which has faced its own difficulties in China) struck an exhortatory chord in media interviews: "Giving up is the biggest failure. Nothing is easy. It is admirable if one can still do well no matter how many difficulties are on the way."

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HUNTSMAN